

## Message Text

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DRAFTED BY NEA/EGY:CAKENNEDY:PM  
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R 120105Z AUG 76  
FM SECSTATE WASHDC  
TO AMEMBASSY CAIRO  
INFO AMEMBASSY DAMASCUS

C O N F I D E N T I A L STATE 199957

EXDIS/FOR AMBASSADOR

E.O. 11652: GDS

TAGS: PFOR, EINV, EG, US

SUBJECT: FORD PROJECT  
REF: CAIRO 10100

1. ON FRIDAY, JULY 30, WILLIAMS AND FREDERICKS OF FORD  
CALLED AT DEPARTMENT TO DISCUSS STATUS OF PROJECT AND  
POINTS RAISED REFTEL. AS RESULT OF MEETING, WILLIAMS HAS  
PROVIDED US WITH FOLLOWING RESPONSE. QUOTE:

A. THE JULY TIMING FOR THE PROGRAM AGREEMENT WAS ENTIRELY  
AT THE REQUEST OF THE GOVERNMENT OF EGYPT. AT OUR LAST  
MEETING IN MAY WE HAD A NUMBER OF KEY FINANCIAL AND LEGAL  
ISSUES STILL REMAINING TO BE AGREED UPON. AT THE TIME THE  
NEGOTIATING TASK LOOKED LARGE, AND IT PROVED TO BE SO. A  
DECISION ON ADDITIONAL FORD DIESEL ENGINE CAPACITY IS RE-  
QUIRED THIS YEAR, BUT TIMING OF IMPLEMENTATION COULD BE  
EXTENDED OR REDUCED DEPENDING ON MARKET FACTORS.

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B. THE AMOUNT OF THE FORD INVESTMENT AND SHARE PARTICIPA-

TION HAS ALWAYS BEEN FLEXIBLE AND AT NO TIME HAVE WE CUT OFF NEGOTIATIONS ON THIS POINT. OUR INITIAL BELIEF WAS THAT A 30 PERCENT FORD SHARE WOULD REPRESENT ABOUT A 35 MILLION DOLLAR COMMITMENT IN PLANT CONTRIBUTION, CASH, LONG AND SHORT TERM LOAN SUPPORT, AND OTHER CONTRIBUTIONS. THE

GOVERNMENT OF EGYPT TEAM SUGGESTED A LARGER EQUITY/DEBT RATIO, AND WE HAVE MERELY SUGGESTED THAT THE SPECIFIC FUND RAISING FORMULA BE LEFT OPEN UNTIL WE CAN MEET AND NEGOTIATE WITH ARAB EQUITY PARTNERS.

C. FORD'S INTEREST IN THE ARAB MARKETS IS STRONG TODAY AND WILL REMAIN SO AS LONG AS OPPORTUNITY TO MARKET OR MANUFACTURE OUR PRODUCTS IN PROFITABLE QUANTITIES REMAINS. WE DO NOT FORESEE ANY CHANGES IN THE NEAR TO MID TERM THAT WILL ERODE THAT INTEREST.

D. AS TO THE PROGRAM STATUS, WE HAVE BEEN STUDYING ALTERNATIVES THAT COULD PROVIDE A PROFITABLE PROGRAM UNDER THE GUIDELINES IDENTIFIED BY DR. SHAFEI IN HIS JUNE 16 WIRE. AS YOU KNOW, THE JOINT VENTURE WAS ONLY MODESTLY PROFITABLE EVEN WITH TAX FORGIVENESS, LARGELY BECAUSE OF THE EXCESS COSTS INCURRED FROM INVESTMENT, FREIGHT AND LOCAL MANUFACTURING PENALTIES TO SUPPORT THE EXPORT PROGRAM REQUIRED TO GENERATE FOREIGN EXCHANGE NEEDED TO BALANCE FOREIGN TRADE.

E. DOING BUSINESS IN BOTH EGYPTIAN AND EXPORT MARKETS MADE A FREE ZONE LOCATION IMPRACTICAL, BECAUSE FREE ZONE COMPANIES ARE REQUIRED TO PAY B.U. IMPORT DUTIES AND TAXES ON ANY PRODUCTS SOLD IN EGYPT AND, IN ADDITION, THIS LOCATION WOULD NOT PROVIDE ARAB COMMON MARKET PRIVILEGES TO JOINT VENTURE PRODUCTS. WE HAVE BEEN INVESTIGATING VARIOUS ALTERNATIVES THAT MIGHT MITIGATE THE UNFAVORABLE BALANCE OF TRADE DURING THE EARLY YEARS OF THE PROGRAM WHILE IMPROVING THE ECONOMIC VIABILITY OF THE JOINT VENTURE AND IN OTHER WAYS BEING RESPONSIVE TO EGYPTIAN NEEDS. IN ADDITION, WE ARE UPDATING ALL THE ECONOMIC DATA TO CURRENT CONDITIONS OF COSTS, SELLING PRICES AND EXCHANGE RATES IN BUYING AND SELLING COUNTRIES, A TASK THAT HAS CONFIDENTIAL

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NOT BEEN UNDERTAKEN SINCE WE BEGAN NEGOTIATIONS ALMOST ONE YEAR AGO. WE EXPECT THIS WORK WILL BE COMPLETED IN ANOTHER FOUR TO SIX WEEKS.

F. WITH ALTERNATIVES IN HAND AND A RE-STUDY OF PROGRAM FEASIBILITY, WE BELIEVE WE WOULD BE PREPARED TO MEET WITH THE PRIME MINISTER AND THE FOREIGN MINISTER TO TELL THEM SPECIFICALLY WHAT CAN BE ALTERED AND DETERMINE THE COM-

PATIBILITY OF THE JOINT VENTURE PROGRAM NEEDS WITH THE NEEDS OF THE COUNTRY. UNTIL WE HAVE SUCH INFORMATION I BELIEVE WE WOULD FIND ANY TALKS WITH EGYPTIAN OFFICIALS INCONCLUSIVE. WE UNDERSTAND THAT YOU HAVE GRACIOUSLY AGREED TO ARRANGE SUCH MEETINGS WHEN THE TIME IS APPROPRIATE.

G. WE BELIEVE IT MAY BE WISE TO HAVE WRITTEN COMMUNICATION WITH BOTH DR. SHAFEI AND ISMAIL FAHMI IN AUGUST TO LET THEM KNOW THE STATUS OF OUR STUDIES AND CURRENT CONCERNS. FURTHER, WE ARE MOST DESIROUS THAT THE GOVERNMENT OF EGYPT UNDERSTAND THAT OUR WORK IS CONTINUING IN EARNEST TO FIND MUTUALLY SATISFACTORY SOLUTIONS TO OUR PROBLEMS. UNQUOTE.

2. WILLIAMS WOULD APPRECIATE YOUR COMMENTS AS TO SUITABILITY OF FORD'S PREPARATION AND TIMING, ESPECIALLY FOR COMMUNICATION DURING AUGUST. IN ADDITION, FREDERICKS WILLING TO BRING LETTERS TO CAIRO AND DISCUSS THEM WITH YOU BEFORE DELIVERING THEM TO EGYPTIANS, IF YOU FEEL THIS WOULD BE USEFUL, AS ALTERNATIVE TO HAVING OUROUSSOFF CONVEY LETTERS IN ROUTINE MANNER.

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